HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY

FINANCIAL STATEMENTS for the years ended December 31, 2006 and 2005

Michigan Department of Treasury 496 (02/06) Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.										
Local Unit of Government Type						Local Unit Name			County	
	Coun		City	Twp	Village	⊠ Other	Harbor Sprii	ngs Area Sewage Dis	<u> </u>	n. Emmet
Fiscal Year End Opinion Date Date Audit Report Submitted to State 12/31/06 June 11, 2007 June 15, 2007										
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We a	are c	ertifie	ed public ac	countants	s licensed to p	ractice in M	lichigan.			
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	YES	9	Check ea	ch applic	able box bel	ow. (See in:	structions for fo	urther detail.)		
1.	×		All require reporting	ed compor entity note	nent units/functions to the finan-	ds/agencies cial stateme	s of the local unit are included in the financial statements and/or disclosed in the ents as necessary.			
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5.	×		A public h	earing on	the budget wa	as held in a	ccordance with	ı State statute.		
6.	X		The local	unit has n	ot violated the	Municipal I		n order issued under the	e Emergeno	y Municipal Loan Act, or
7.	×							enues that were collect	ed for anoth	ner taxino unit
8.	×							with statutory requireme		or taking time.
9.	×		The local	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin).						
10.						uring the course of our audit f there is such activity that has				
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12.	×				UNQUALIFIE		•			
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14.	×						ior to payment	as required by charter of	or statute.	
15.	X							were performed timely.		
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Kevin R. Christman

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June 11, 2007

Adam B. Caron, C.P.A. Laura L. Schwalbach, C.P.A.

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

We have audited the financial statements of the Harbor Springs Area Sewage Disposal Authority as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Springs Area Sewage Disposal Authority as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees June 11, 2007

Our audit was conducted for the purpose of forming an opinion on the financial statements. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Smolinski & Christman, P.C.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

for the years ended December 31, 2006 and 2005

This section of the Harbor Springs Area Sewage Disposal Authority's annual financial report presents management's discussion and analysis of the Authority's financial performance during the year ended December 31, 2006 and 2005. It should be read in conjunction with the Authority's financial statements which immediately follow.

FACILITY AND OPERATIONS

The Harbor Springs Area Sewage Disposal Authority serves the southern Emmet County area in a variety of formats. The Authority is made up of four municipalities, those being the City of Harbor Springs, Little Traverse Township, Littlefield Township and the Village of Alanson. The Authority is an incorporated intramunicipality founded in 1969 under the provisions of Act 233, Michigan Public Acts of 1955, as amended. Control of the various operations of the Authority is vested in the Board of Trustees. The board consists of seven members, three from the City of Harbor Springs, two from Little Traverse Township, and one each from Littlefield Township and the Village of Alanson.

The Authority operates and maintains seventy-eight separate wastewater pumping stations, approximately sixty-five miles of gravity sewers and approximately thirty-five miles of force mains in the seven regional and local collection systems which it owns. It also operates a municipal wastewater treatment system which serves all four of the above-mentioned municipalities. The Authority also operates and maintains its water distribution system as required by the State of Michigan.

In addition, the Authority is under contract with the Springvale-Bear Creek Sewer Authority and West Traverse Township to operate and maintain their respective municipal wastewater collection systems. The Authority is also under contract with Little Traverse Township to operate and maintain the township's municipal water distribution system.

In total, the Harbor Springs Area Sewage Disposal Authority operates and maintains twelve separate systems with rate structures to provide funds for those separate systems.

MISSION STATEMENT AND SOURCES OF REVENUE

The Harbor Springs Area Sewage Disposal Authority was incorporated to comply with the Clean Water Act of 1968 and to help improve the water quality of the local lakes, rivers and streams.

In order to comply, the authority charges fixed and flow-related rates to the various municipalities to provide funds to adequately fund the different operations. These funds provide for operations, repair and replacement of pumps, motor, vehicles, etc. as described in the board-approved repair and replacements fund lists.

FINANCIAL STATEMENT OVERVIEW

The Authority's annual report includes three financial statements that provide both long-term and short-term information about the Authority's financial status. These statements are presented using the accrual basis of accounting.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

for the years ended December 31, 2006 and 2005

FINANCIAL STATEMENT OVERVIEW (Continued)

The Statements of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the Authority's capital structure and assessing its liquidity and financial flexibility.

The Statements of Revenues, Expenses, and Changes in Net Assets includes all of the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final financial statement is the Statements of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CONDENSED FINANCIAL INFORMATION

The following table represents condensed information regarding the Authority's financial position at December 31, 2006 and 2005:

	2006	2005
Current assets Restricted and designated assets Capital assets Other assets	\$ 348,581 6,151,536 8,098,336 15,844	\$ 378,548 6,501,120 8,444,142 23,796
Total assets	<u>\$14,614,297</u>	<u>\$15,347,606</u>
Current liabilities Current liabilities payable from	\$ 31,411	\$ 30,734
restricted assets	348,487	426,551
Long-term liability	31,795	38,878
Long-term liability payable from restricted assets	5,064,770	5,464,770
Total liabilities	<u>\$ 5,476,463</u>	\$ 5,960,933
Invested in capital assets Restricted for debt retirement Unrestricted	\$ 8,098,336 1,645 <u>1,037,853</u>	\$ 8,444,142 2,165 <u>940,366</u>
Total net assets	<u>\$ 9,137,834</u>	\$ 9,386,673

The largest portion of the Authority's net assets at December 31, 2006 (88 percent) reflects its investment in capital assets. The Authority uses these capital assets to provide services to its users and therefore, these assets are not available for future spending.

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS for the years ended December 31, 2006 and 2005

CONDENSED FINANCIAL INFORMATION (Continued)

A small portion (less than 1 percent) of net assets is restricted for repayment of outstanding bonded debt.

The remaining 20 percent of net assets is unrestricted and available to be used for operations. However, the Authority's Board of Directors has designated that a portion of the unrestructed net assets at December 31, 2006 (\$689,763 of the total \$1,042,853) be designated for future system repair and replacement and capital items.

The following table indicates that operating revenue exceeded operating expenses, excluding depreciation for the year. A portion of depreciation expense is funded annually by separate repair and replacement billings. However, it is anticipated that the Authority will continue to show losses in future years because a majority of the depreciation expense relates to the sewer plant facility. The following information does indicate that the rates charged for operations were sufficient to cover expenses. Fine tuning of the twelve separate systems and the different rates is an annual requirement and is necessary to mandate that each municipality is paying its fair share.

	2006	2005
Operating revenues	\$ 805,143	\$ 746,546
Operating expenses: Pumping Treatment Collection and transmission Administration and general	299,065 66,518 51,797 <u>368,814</u>	281,618 72,359 40,150 326,161
Total operating expenses	<u>786,194</u>	<u>720,288</u>
Operating income before depreciation	18,949	26,258
Depreciation expense	<u>419,472</u>	413,283
Operating loss	(400,523)	(387,025)
Non-operating revenues and expenses (net) Net loss	<u>151,684</u> \$(248,839)	<u>163,351</u> \$(223,674)

Operating revenues for 2006 increased \$58,597 over 2005 due to increases in rates and user consumption. Operating expenses also increased \$65,906 in 2006 over 2005. Employee wages, benefits and related payroll taxes increased \$46,480, due to an increase in insurance premiums and the addition of one more operator. Maintenance, supplies and electric utilities increased by \$8,802. These expenses make up the majority of the increase in operating expenses.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS for the years ended December 31, 2006 and 2005

CAPITAL IMPROVEMENTS AND FUNDING REQUIREMENTS

The Authority began setting aside funds for repair and replacement purposes approximately ten years ago based on a study of future replacement needs for transportation equipment and operating equipment and parts, including pumps, meters and control panels. Revenues for this purpose are billed annually and totaled \$216,582 in 2006 and \$208,700 in 2005. The total amount available for repair and replacement at December 31, 2006 and 2005 was \$637,866 and \$557,685, respectively. Detailed information about the Authority's capital assets is presented in Note F to the financial statements.

DEBT STRUCTURE

The Authority had three outstanding bond issues at December 31, 2006 and 2005. In 2002, a new wastewater treatment facility was financed with a bond issue totaling approximately \$5,400,000. Also, the Authority issued bonds in 2004 totaling \$710,000, the proceeds of which were used to retire existing bonds. The bond refunding was done to take advantage of lower interest rates for the remainder of the bond repayment term through 2009.

The Authority's contractual agreements with its users require them to reimburse the Authority for all principal and interest costs associated with the bond issues. Detailed information about the Authority's long-term debt is presented in Note G to the financial statements.

REQUESTS FOR INFORMATION

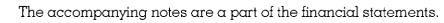
This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager, Harbor Springs Area Sewage Disposal Authority, 709 East Hathaway Road, Harbor Springs, Michigan 49740.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENTS OF NET ASSETS

December 31, 2006 and 2005

	2006	2005
ASSETS	_	
CURRENT ASSETS: Cash and cash equivalents Certificates of deposit Accounts receivable Inventory Due from Springvale-Bear Creek Sewage Disposal Authority	\$ 49,197 71,122 94,225 134,037	\$ 39,073 63,970 108,468 131,037 36,000
Total current assets	348,581	378,548
RESTRICTED AND DESIGNATED ASSETS: Restricted assets, debt retirement Designated assets	5,461,773 689,763	5,893,502 607,618
Total restricted and designated assets	6,151,536	6,501,120
CAPITAL ASSETS, net of accumulated depreciation	8,098,336	8,444,142
OTHER ASSETS, bond expenses net of accumulated amortization	15,844	23,796
Total assets	\$14,614,297	\$15,347,606
LIADH PRICO AND NISE ACCISTO		
LIABILITIES AND NET ASSETS CURRENT LIABILITIES:		
Accounts payable	\$ 4,940	\$ 17,125
Accrued and withheld payroll taxes Due to Springvale-Bear Creek Sewage Disposal Authority Current portion of advances	19,391 7,080	1,550 - 12,059
Total current liabilities	31,411	30,734
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: Accrued interest payable Current portion of long-term debt	33,487 315,000	41,551 385,000
Total current liabilities payable from restricted assets	348,487	426,551
LONG-TERM LIABILITY, Advances, less current portion	31,795	38,878
LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS, Long-term debt, less current portion	5,064,770	5,464,770
Total liabilities	5,476,463	5,960,933
NET ASSETS: Invested in capital assets Restricted for debt retirement Unrestricted	8,098,336 1,645 1,037,853	8,444,142 2,165 940,366
Total net assets	9,137,834	9,386,673
Total liabilities and net assets	\$14,614,297	\$15,347,606





HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS for the years ended December 31, 2006 and 2005

OPERATING EXPENSES: 299,065 281 Pumping 66,518 72 Treatment 66,518 72 Collection and transmission 51,797 40 Administrative and general 368,814 326 Total operating expenses 786,194 720 Operating income before depreciation 18,949 26 Depreciation expense 419,472 413 Operating loss (400,523) (387)	15
Pumping 299,065 281 Treatment 66,518 72 Collection and transmission 51,797 40 Administrative and general 368,814 326 Total operating expenses 786,194 720 Operating income before depreciation 18,949 26 Depreciation expense 419,472 413 Operating loss (400,523) (387)	5,546
Treatment 66,518 72 Collection and transmission 51,797 40 Administrative and general 368,814 326 Total operating expenses 786,194 720 Operating income before depreciation 18,949 26 Depreciation expense 419,472 413 Operating loss (400,523) (387)	
Collection and transmission Administrative and general Total operating expenses Operating income before depreciation Depreciation expense Operating loss 18,949 419,472 413 Operating loss	1,618
Administrative and general 368,814 326 Total operating expenses 786,194 720 Operating income before depreciation 18,949 26 Depreciation expense 419,472 413 Operating loss (400,523) (387)	2,359
Total operating expenses 786,194 720 Operating income before depreciation 18,949 26 Depreciation expense 419,472 413 Operating loss (400,523) (387)),150
Operating income before depreciation 18,949 26 Depreciation expense 419,472 413 Operating loss (400,523) (387)	,,101 ——
Depreciation expense 419,472 413 Operating loss (400,523) (387)),288
Operating loss (400,523) (387)	5,258
	3,283
NON ODER LENG DE ENVIRO (EMPRINO)	7,025)
NON-OPERATING REVENUES (EXPENSES):	
Contribution by local governmental units to	
	6,071
Repair and replacement income 216,582 208	3,700
Interest income 32,780 16	3,407
Miscellaneous income 1,795	3,365
Interest expense (147,226) (163	3,958)
· · · · · · · · · · · · · · · · · · ·	,211)
	3,379)
Gain on sale and disposal of equipment 3,555 2	2,356
Total non-operating revenues (expenses) 151,684 163	3,351
Net loss (248,839) (223	,674)
NET ASSETS, BEGINNING OF YEAR 9,386,673 9,610	,347
NET ASSETS, END OF YEAR \$ 9,137,834 \$ 9,386	,673



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENTS OF CASH FLOWS

for the years ended December 31, 2006 and 2005

		2006		2005
CASH FLOWS FROM OPERATING ACTIVITIES:	*******			
Fees and services	\$	815,198	\$	744,172
Payments for goods and services		(499,988)		(444,761)
Payments to employees		(302,941)		(286,416)
Net cash provided by operating activities		12,269		12,995
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Additions to repair and replacement reserve		218,466		209,850
Repair and replacement expenses		(92,590)		(51,211)
Springvale Bear-Creek Sewage Disposal Authority				
repair and replacement (expenses) reimbursement		57,695		(56,747)
Other income		1,795		3,365
Net cash provided by noncapital financing activities		185,366		105,257
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Collections from local governments for bond retirement		364,444		357,398
Contribution by local governments to defray		001,111		007,550
interest and bond fee expense		144,513		153,856
Purchase of capital assets		(73,666)		(129,349)
Retirement of advances		(12,062)		(11,890)
Proceeds from sale of capital assets		3,555		4,200
Retirement of long-term debt		(470,000)		(295,000)
Interest and bond fee expense		(155,290)		(152,679)
Net cash used in capital and related financing activities		(198,506)		(73,464)
CASH FLOWS FROM INVESTING ACTIVITIES, Interest earned		20.700		16.405
		32,780 722,915		16,407 700,963
Proceeds from maturities of certificates of depasit Purchase of certificates of deposit		(812,212)		(751,047)
Turchase of certificates of deposit		(012,212)		(/31,04/)
Net cash used in investing activities		(56,517)		(33,677)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(57,388)		11,111
CASH AND CASH EQUIVALENTS, Beginning of year		108,230		97,119
CASH AND CASH EQUIVALENTS, End of year	\$	50,842	\$	108,230
COMPONENTS OF CASH AND CASH EQUIVALENTS:				
Unrestricted and undesignated	\$	49.197	\$	39.073
Restricted for debt retirement		1,645		69,157
Total cash and cash equivalents	\$	50,842	\$	108,230
RECONCILIATION OF NET OPERATING EXPENSES TO				_
NET CASH PROVIDED BY OPERATING ACTIVITIES: Operating loss	œ	(400 500)	ď	/207 OOE)
Adjustments to reconcile operating loss to net cash provided by operating activities:	\$	(400,523)	\$	(387,025)
Depreciation		419,472		413,283
Decrease in accounts recievable		12,359		7,073
Increase in inventory		(3,000)		7,075
Decrease in accounts payable		(12,185)		(10,036)
Increase in accrued and withheld payroll taxes		(1,550)		(853)
Increase in due to Springvale-Bear Creek Sewage Disposal Authority		(2,304)		(9,447)
Net cash provided by operating activities	\$	12,269	\$	12,995
NON CASH CAPITAL AND FINANCING ACTIVITIES:				
Gain on capital asset sales and dispasals	\$	-	\$	2,356



for the years ended December 31, 2006 and 2005

NOTE A - NATURE OF ENTITY:

The Harbor Springs Area Sewage Disposal Authority (the "Authority") was created as a corporate instrumentality in 1969 under provisions of Act 233, Michigan Public Acts of 1955, as amended. The local governmental units comprising the Authority include the City of Harbor Springs, the Village of Alanson, and Little Traverse and Littlefield Townships. The Authority owns and operates a sewage disposal utility system consisting of a site, a treatment plant, a collection system and a related water system. In addition, the Authority operates sewage disposal utility systems belonging to Springvale-Bear Creek Sewage Disposal Authority and West Traverse Township and a water system belonging to Little Traverse Township under terms of operating contracts.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Authority conform to accounting principles generally accepted in the United State of America as applicable to governmental units. The Authority accounts for operations that are financed and operating in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges. Specific accounting policies are described in the following paragraphs.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

Basis of Accounting

The accrual basis of accounting is used to account for the operations of the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

<u>Inventory</u>

Inventory is valued at the lower of cost or market. Cost is determined using the first in, first out method.

Operating Revenue

The Authority derives its revenues from charges to local units for sewage and water services. Rates are set at a level to provide for all operating costs, and to provide for an accumulation of funds for repair and replacement of plant and equipment as explained in Note E. Each member entity and contracting entity is charged based on the costs of services utilized, as some entities do not use the full range of services offered.

Capital Assets

Property and equipment are recorded at cost. Depreciation is provided for property and equipment on a straight-line basis over the estimated useful life of the assets.

for the years ended December 31, 2006 and 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital Assets (Continued)

The following estimated useful lives are used to compute depreciation:

Plant and systems 40 years
Transportation, shop and office equipment 3-20 years
Garage and other buildings 10-40 years

Bank Deposits and Investments

The Authority considered its deposits and restricted deposits held with initial maturities of three months or less to be cash equivalents. Investments are stated at fair value.

Restricted and Designated Assets

Assets restricted by provisions of bond resolutions for the payment of bond interest are recorded as restricted assets while those designated by the Authority's Board of Trustees for repair and replacement are recorded as designated assets. Any investment earnings of the restricted or designated funds are recorded as income and added to the fund. Disbursements are made only for the restricted or designated purposes.

Contributions for Bond Costs

Amounts receivable from participating local governmental units to pay the outstanding bond principal are recorded as contracts receivable and capital contributions. Payments are due at designated dates and amounts over the lives of the bonds and are to be applied against the receivable when received.

In addition to the principal payments, governmental units are to provide for the interest expense and bond costs incurred on long-term debt. Amounts to defray such costs are recorded as other income. Any accrued interest payable on bonds is also recorded as an asset due from the governmental units.

Other Assets

Deferred bond expense is being amortized over the term of the bonds. The statements of revenues, expenses and changes in net assets reflects \$7,952 and \$8,379 for amortization of bond expenses in 2006 and 2005, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Financial Statement Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform with the 2006 financial statement presentation. Such reclassifications had no effect on net loss previously reported.

for the years ended December 31, 2006 and 2005

NOTE C - DEPOSITS AND INVESTMENTS:

The following is a summary of the Authority's deposits (including cash, cash equivalents and certificates of deposit) at December 31, 2006 and 2005:

·	2006	2005
Bank balance	\$846,706	\$808,148
Insured by Federal Deposit Insurance Corporation	100,000	100,000
Uninsured and uncollateralized balance	<u>\$746,706</u>	<u>\$708,148</u>

Michigan Compiled Laws, Section 129.91, authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's deposits are in accordance with statutory authority.

NOTE D - RESTRICTED ASSETS:

Under terms of contractual agreements between the Authority, the City of Harbor Springs, Village of Alanson, and Littlefield and Little Traverse Townships executed in conjunction with the sale of various bonds, the participating governmental units have agreed to pay the Authority all debt service costs associated with the bond issues and the bonds are payable solely from such payments. These payments are required annually at amounts equal to the bond interest, principal and service charges payable within the ensuing year. The following is a summary of percentages due from each governmental unit for the bond issues outstanding at December 31, 2006 and 2005:

	Series 2004, Project No. 1 <u>Refunding</u>	Series 2004, Project No. 2 <u>Refunding</u>	<u>Series 2002</u>
Littlefield Township	-	53.17	23.29
Little Traverse Township	36.16	20.24	27.06
Village of Alanson	=	26.59	10.37
City of Harbor Springs	63.84		<u>39.28</u>
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>



for the years ended December 31, 2006 and 2005

NOTE D - RESTRICTED ASSETS (Continued):

Under the terms of the agreements, the City, Village and Townships have pledged their full faith and credit for payment of their respective share of debt service costs. In addition, each governmental unit has agreed to include a sufficient amount in its annual property tax levy to make the required payments.

The following is a summary of assets that are restricted for debt retirement at December 31, 2006 and 2005:

	2006	2005
Cash Accrued interest receivable	\$ 1,645 36,062	\$ 69,157 36,973
Due from local governmental units for bond retirement	_5,424,066	5,787,372
Total	<u>\$5,461,773</u>	<u>\$5,893,502</u>

NOTE E - DESIGNATED ASSETS:

The Authority's repair and replacement reserve was established to accumulate funds for replacement of plant and equipment. The fund is to be used for plant repair or replacements costing more than an amount established by formula, approximately \$84,000 at December 31, 2006, and equipment repair or replacements costing more than \$10,000 or for specific capital items or expenses as designated by the Board of Trustees.

Annual operating revenues specified for repair and replacement and earnings from reserve investments are to be added to the reserve until it accumulates to five percent of plant cost, exclusive of land cost. After that only earnings from reserve investments are to be added to the reserve.

The Authority has also designated an investment account, which consists of proceeds from timber sales and other miscellaneous proceeds, for specific capital items and expenses as determined by the Board of Trustees.

The Authority's cash and certificates of deposit balances are designated as follows as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Repair and replacement and equipment fund Designated timber funds	\$637,866 51,897	\$557,685 <u>49,933</u>
Total	<u>\$689,763</u>	<u>\$607,618</u>



for the years ended December 31, 2006 and 2005

NOTE F - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2006, is as follows:

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Undepreciable capital asset:	<u>january 1, 2000</u>	<u> Madidolis</u>	Descrions	December of Eddo
Land	\$ 356,372	\$ -	\$ -	\$ 356,372
Depreciable capital assets:				
Sewage utility plant and				
collection system	14,005,491	113,865	-	14,119,356
Waterwell and distribution system	195,666	-	-	195,666
Garage and other buildings	97,870	=	=	97,870
Transportation, shop and				
office equipment	379,559	18,058	7,512	390,105
Construction in progress	<u>58,257</u>		<u> 58,257</u>	
Total	15,093,215	131,923	65,769	15,159,369
Accumulated depreciation	6,649,073	419,472	<u>7,512</u>	7,061,033
Capital assets, net	<u>\$ 8,444,142</u>	<u>\$(287,549</u>)	\$ 58,257	\$ 8,098,336

Total depreciation expense for the years ended December 31, 2006 and 2005 was \$419,472 and \$413,283, respectively.

NOTE G - LONG-TERM DEBT:

The following is a summary of long-term debt transactions for the year ended December 31, 2006:

	Balance <u>Ianuary</u> 1, 2006	Additions	Retirements	Balance December 31, 2006
Series 2002 Wastewater Treatment Facility Bonds	\$5,209,770	\$ -	\$ 230.000	\$4,979,770
Series 2004 Project No. 1 Refunding Bonds	300,000	_	70.000	230,000
Series 2004 Project No. 2 Refunding Bonds	340,000		170,000	170,000
Returning bonds	\$5,849,770	\$ -	<u> 170,000</u> <u>\$ 470,000</u>	\$5,379,770

Long-term debt consists of the following at December 31, 2006 and 2005:

ΦΕ CCA 770 C	2006	<u>2005</u>
\$5,664,770 Series 2002 Wastewater Treatment Facility Bonds due in annual installments		
of \$225,000 to \$360,000 plus interest at	4.	4 5 000 000
2.50 percent; maturing in April, 2023	\$4,979,770	\$5,209,770
\$370,000 Series 2004 Project No. 1 Refunding		
Bonds due in annual installments of \$70,000		
to \$80,000 plus interest of 3.125 to 3.750 percent;		
maturing in September, 2009	230,000	300,000



for the years ended December 31, 2006 and 2005

NOTE G - LONG-TERM DEBT (Continued):

	2006	2005
\$340,000 Series 2004 Project No. 2 Refunding Bonds due in annual installments of \$85,000		
plus interest of 3.125 to 3.750 percent; maturing		
in January, 2009	<u>\$ 170,000</u>	<u>\$ 340,000</u>
	5,379,770	5,849,770
Less current portion	<u>315,000</u>	<u>385,000</u>
Total	<u>\$5,064,770</u>	<u>\$5,464,770</u>

The annual requirements to amortize all debt outstanding as of December 31, 2006, including interest payments of \$1,157,850 are as follows:

Year Ending December 31,	
2007	\$ 447,544
2008	530,732
2009	528,838
2010	357,932
2011	361,432
2012 - 2016	1,798,721
2017 - 2021	1,789,847
2022 - 2023	<u>722,574</u>
Total	<u>\$6,537,620</u>

Payment of bond principal, interest and service costs are provided under the terms of contractual agreements with local governmental units as explained in Note D.

NOTE H - ADVANCES:

Under terms of agreements between the Authority, the Village of Alanson and Littlefield Township, the participating governmental units made a long-term advance in December, 1996 to the Authority's repair/replacement reserve. The advances are to be repaid by the Authority over terms ranging from 10 to 15 years.

NOTE I - UNRESTRICTED NET ASSETS:

The Authority, through Board action, has designated the use of December 31, 2006 and 2005 unrestricted net assets as follows:

	<u>2006</u>	2005
Designated for future repair and replacement Designated for future capital items and expenses	\$ 637,866 51,897	\$557,685 <u>49,933</u>
Total designated net assets Undesignated and unallocated	689,763 <u>348,090</u>	607,618 <u>332,748</u>
Total unrestricted net assets	<u>\$1,037,853</u>	<u>\$940,366</u>

for the years ended December 31, 2006 and 2005

NOTE J - PRIOR PERIOD ADJUSTMENT:

The Authority had not recorded its parts and supplies inventory as an asset prior to December 31, 2005. Accordingly, the Statement of Net Assets on December 31, 2005 reflects an adjustment to record an additional asset of \$131,037 and an increase in previously reported unrestricted net assets from \$809,329 to \$940,366. The previously reported net loss for the year ended December 31, 2005 was not effected by the adjustment.

NOTE K - PENSION PLAN:

The Authority sponsors the Harbor Springs Area Sewage Disposal Authority Money Purchase Pension Plan which covers all regular full-time and part-time employees. The plan is administered by the International City Management Association Retirement Corporation. Employees are eligible to participate after one year of service and upon reaching the age of 21. The Authority is required to contribute 8 percent of eligible compensation to the plan. Employees may also contribute to their individual accounts. Employer contributions and earnings of each individual employee fully vest after five years of credited service. Contributions and earnings not vested with employees who leave employment are used to offset the future costs of the plan. The Authority's contributions to the plan for the years ended December 31, 2006 and 2005 was \$23,037 and \$19,816, respectively. Employee contributions to the plan for the years ended December 31, 2006 and 2005 was \$23,037 and \$19,816, respectively.

NOTE L - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Authority pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for 100 percent of its claims.

The Authority also belongs to the Michigan Municipal Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and worker's compensation insurance program for various municipalities throughout the state. The Authority pays an annual premium for its worker's compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event.

The Authority also carries commercial insurance for all other risks of loss including property and employee health insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF OPERATING INCOME BEFORE DEPRECIATION

for the year ended December 31, 2006

(with comparative totals for the year ended December 31, 2005)

	Spri S D A	Harbor ings Area ewage isposal uthority eatment	Spri S D	Harbor ngs Area ewage isposal tem West	Spr. S D	Harbor ings Area lewage isposal stem East	Spr. S D A	Harbor ings Area iewage isposal uthority er System	Little Traverse Township Sewage Collection System West		gs Area Traverse wage Township sposal Sewage thority Collection		Tr To So Co	Little Traverse Township Sewage Collection System East	
Operating revenues	\$	232,367	\$	73,449	\$	70,948	\$	37,014	\$	40,393	\$	33,733			
Pumping expenses: Labor Power Maintenance Supplies and expenses		33,993 24,099 17,589		15,154 14,449 7,226		9,695 14,072 5,303 2,672		7,511 3,266 7,309 916		2,427 9,421 605		1,655 4,166 283			
Total		75,681		37,700		31,742		19,002		12,453		6,104			
		70,001		37,700		01,712		10,002		12, 100		0,101			
Treatment expenses: Labor Power		50,010		<u>-</u>		-		<u>.</u>		-		-			
Mainlenance		15,638		290		580		-				-			
Total		65,648		290		580		-		-		-			
Collection and transmission expenses Labor		-		-		-				12,036		6,328			
Maintenance of mains		4,913		-		-		-		53		-			
Total		4,913						_		12,089		6,328			
Administrative and general expenses: Salaries		25,168		6,878		7,288		2,159		4,591		4,106			
Office supplies															
and expenses Outside services Insurance Employee benefits Vacation, holidays		4,701 12,107 8,842 38,508		1,913 674 2,305 10,059		1,680 749 2,561 11,592		501 682 759 3,343		1,063 542 1,613 7,307		943 422 1,443 6,387			
and sick leave Payroll taxes		16,888 7,876		4,425 2,410		4,821 1,954		1,426 999		3,035 1,708		2,716 1,125			
Transportation expense Maintenance Miscellaneous		6,680 1,296		2,077 343		1,960 454 -		539 119		1,144 289 -		1,022 231 -			
Total		122,066		31,084		33,059		10,527		21,292		18,395			
Total operating expenses		268,308		69,074		65,381		29,529		45,834		30,827			
Operating income (loss) before expense allocation		(35,941)		4,375		5,567		7,485		(5,441)		2,906			
Springvale - Bear Creek surcharge		28,235		_		-				-					
Operating income (loss) before depreciation	\$	(7,706)	\$	4,375	\$	5,567	\$	7,485	\$	(5,441)	\$	2,906			

	Littlefield Township Sewage Collection System	C	alanson Sewage ollection System	S Cd	Harbor Springs Ollection System	Be S	oringvale ear Creek Sewage Disposal System	Tr To Se Di	West averse wnship ewage sposal ystem		Little Traverse Water System		Total		2005 Total
\$	46,604	\$	38,656	\$	37,044	\$	140,161	\$	2,385	\$	52,389	\$	805,143	\$	746,546
	4,138 3,798		3,892 3,264		5,029 2,123		28,678 13,835 15,302		884 - 113		12,149 15,075 4,097		74,071 111,831 86,221		63,322 112,950 72,590
	369		320		308		1,404		24		1,581		26,942		32,756
	8,305		7,476		7,460		59,219		1,021		32,902		299,065		281,618
	-		- - -		- - -		- - - -		- - - -	_	- - -	_	50,010 16,508 66,518		55,049 90 17,220 72,359
	8,272		7,698		12,182		-		-		-		46,516		34,717
	-		-		-		159		52		104		5,281		5,433
	8,272		7,698		12,182		159		52		104		51,797		40,150
	4,653		3,951		4,354		11,449		342		3,910		78,849		80,335
	1,067 478 1,635 7,107		912 406 1,388 6,071		1,012 531 1,575 6,774		2,678 1,177 4,023 17,644		82 35 120 621		920 390 1,334 5,936		17,472 18,193 27,598 121,349		17,757 11,798 26,444 97,397
	3,078 1,416		2,616 1,265		3,097 1,721		7,572 4,315		225 130		2,510 1,785		52,409 26,704		46,076 26,532
	1,557 238 -		1,609 209		1,107 215		3,074 616		87 35		1,119 220		21,975 4,265		15,423 4,341 58
	21,229		18,427		20,386		52,548		1,677		18,124		368,814		326,161
	37,806		33,601		40,028		111,926		2,750		51,130		786,194		720,288
	8,798		5,055		(2,984)		28,235		(365)		1,259		18,949		26,258
_					-		(28,235)		<u>-</u>	_	-	_	-	_	-
\$	8,798	\$	5,055	\$	(2,984)	\$	<u>-</u>	\$	(365)	\$	1,259	\$	18,949	\$	26,258

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULES OF SYSTEM REPAIR AND REPLACEMENT RESERVES for the years ended December 31, 2006 and 2005

	Re	System epair and placement		quipment olacement	Total
Balance, December 31, 2004	\$	391,612	\$	123,571	\$ 515,183
Additions:		115,392		93,308	208,700
Monthly billings		2,400		93,300	2,400
Insurance proceeds Sale of equipment		2,500		1,701	4,201
Transfer from undesignated assets for sludge removal		10,000		-	10,000
Refund from overpayment		492		-	492
Interest income		8,812		3,505	 12,317
Total additions		139,596		98,514	238,110
Reductions:					
Repairs		51,211		-	51,211
Capital acquisitions		68,838		00.511	68,838
Vehicle purchase		15.040		60,511	60,511
Repayment of long-term advances		15,048 			 15,048
Total reductions		135,097		60,511	 195,608
Balance, December 31, 2005		396,111		161,574	557,685
Additions:					
Monthly billings		117,400		99,182	216,582
Sale of equipment		10,000		3,555	3,555 10,000
Transfer from undesignated assets for sludge removal Interest income		14,394		9,267	23,661
interest income					
Total additions		141,794		112,004	253,798
Reductions:					
Repairs		88,767		3,823	92,590
Capital acquisitions		55,609		10,840	66,449
Repayment of long-term advances		14,578			14,578
Total reductions		158,954		14,663	173,617
Balance, December 31, 2006	\$	378,951	\$	258,915	\$ 637,866
			-		



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULES OF SYSTEM REPAIR AND REPLACEMENT RESERVE for the years ended December 31, 2006 and 2005

Authority Disposal Disposal Authority Control System West System East Water System Sys	
Balance, December 31, 2004 \$ 119,797 \$ 34,214 \$ 40,516 \$ 3,355 \$	61,498
Additions: Monthly billings 31,500 9,204 26,760 600 Insurance proceeds - 2,400 Sale of equipment 2,500 Transfer from undesignated funds for sludge removal 10,000	11,100
Refund of overpayment - 492	-
Interest income 3,558 44 1,158 52	1,392
Total additions 47,558 12,140 27,918 652	12,492
Reductions: 8 9,163 - 1,661 Capital acquisitions - 35,133 - - Repayment of long-term advances - - 15,048 -	1,275 8,325
Balance, December 31, 2005 160,797 2,058 53,386 2,346	64,390
Additions: 31,500 11,712 26,288 600 Transfer from undesignated funds for sludge removal 10,000 - - - Interest income 7,691 338 2,144 15	11,100 - 554
Total additions 49,191 12,050 28,432 615	11,654
Reductions: 3,716 8,912 2,839 Capital acquisitions -	42,372 23,480
Total reductions - 3.716 23,490 2,839	65,852
Balance, December 31, 2006 \$ 209,988 \$ 10,392 \$ 58,328 \$ 122 \$	10,192

Tr To S Co	Little raverse ownship ewage ollection stem East	T S C	ittlefield ownship Sewage follection System	C	Alanson Sewage Collection System	Harbor Springs Collection System	Total		
\$	44,633	\$	19,476	\$	18,255	\$ 49,868	\$	391,612	
	13,632		7,500		7,500	7.596		115,392	
	-		-		-	-		2,400 2,500	
	-		-		-	-		10,000	
	1,117		187		363	941		492 8,812	
	14,749		7,687		7,863	8,537		139,596	
	7,910 - -		15,352 6,740		9,062 3,840	230 14,800		51,211 68,838 15,048	
	51,472		5,071		13,216	43,375		396,111	
	13,600		7,500		7,500	7,600		117,400	
	2,051		- 238		572	- 791		10,000 14,394	
	15,651		7,738		8,072	 8,391		141,794	
	28,453 - -		1,423		918	134 32,129		88,767 55,609 14,578	
	28,453		1,423		918	32,263		158,954	
\$	38,670	\$	11,386	\$	20,370	\$ 19,503	\$	378,951	



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS December 31, 2006

Date of Issue	Amount of Issue	Interest Rate	Date of Maturity April 1	Outstanding December 31, 2006	Total Interest Payable
* 41 0000	Ø 5 00 4 BB0	0.50	0007	d 0.40.000	d 101 404
April 1, 2002	\$ 5,664,770				\$ 121,494
				•	115,432
					109,244
					102,932
					96,432
				,	89,744
					82,932
				•	75,932
					68,744
				·	61,369
					53,807
		2.50	2018	315,000	46,057
		2.50	2019	320,000	38,119
		2.50	2020	325,000	30,057
		2.50	2021	335,000	21,807
		2.50	2022	345,000	13,307
		2.50	2023	359,770	4,497
				\$ 4,979,770	\$ 1,131,906
		of Issue of Issue	of Issue of Issue Rate April 1, 2002 \$ 5,664,770 2.50 2.50 2.50 2.50 2.50 2.50 2.50 2.50	Date of Issue Amount of Issue Interest Rate Maturity April 1 April 1, 2002 \$ 5,664,770 2.50 2007 2.50 2008 2.50 2009 2.50 2010 2.50 2011 2.50 2011 2.50 2012 2.50 2013 2.50 2014 2.50 2015 2.50 2016 2.50 2017 2.50 2018 2.50 2020 2.50 2020 2.50 2021 2.50 2021 2.50 2021 2.50 2021 2.50 2020 2.50 2021 2.50 2021 2.50 2021 2.50 2021 2.50 2021 2.50 2021 2.50 2021 2.50 2021 2.50 2021	Date of Issue Amount of Issue Interest Rate Maturity April 1 December 31, 2006 April 1, 2002 \$ 5,664,770 2.50 2007 \$ 240,000 2.50 2008 245,000 2.50 2009 250,000 2.50 2010 255,000 2.50 2011 265,000 2.50 2012 270,000 2.50 2013 275,000 2.50 2014 285,000 2.50 2015 290,000 2.50 2016 300,000 2.50 2017 305,000 2.50 2018 315,000 2.50 2019 320,000 2.50 2020 325,000 2.50 2021 335,000 2.50 2021 335,000 2.50 2022 345,000 2.50 2023 359,770

NOTE: Bonds are subject to redemption at par prior to maturity at the option of the Authority, in the amount of \$5,000 or any multiple of \$5,000.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS December 31, 2006

	Date of Issue	 Amount of Issue	Interest Rate	Date of Maturity September 1	De	utstanding ecember 31, 2006	Ir	Total nterest ayable
Revenue Bonds, Project No. 1 Refunding Bonds, Series 2004	Oct. 7, 2004	\$ 370,000	3.125 3.125 3.500	2007 2008 2009	\$	75,000 75,000 80,000	\$	7,969 5,625 3,000
					\$	230,000	\$	16,594

NOTE: The prior bond issue, Revenue Bonds, Series 1989, was refinanced during 2004 with the Project No. 1 Refunding Bonds, Series 2004. These bonds are not subject to redemption prior to maturity.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS December 31, 2006

			Amount of Issue	Interest Rate	Date of Maturity January 1	Outstanding December 31, 2006		Total Interest Payable	
Revenue Bonds, Project No. 2 Refunding Bonds, Series 2004	Oct. 7, 2004	\$	340,000	3.125 3.125 3.500	2007 2008 2009	\$	- 85,000 85,000	\$	3,081 4,675 1,594
						\$	170,000	\$	9,350

NOTE: The prior bond issue, Revenue Bonds Project No. 2 Refunding Bonds, Series 1988, was refinanced during 2004 with the Project No. 2 Refunding Bonds, Series 2004. These bonds are not subject to redemption prior to maturity.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF ADVANCES

December 31, 2006

	Orignal Amount	Repayment Term	Interest Rate	Year Due	Principal Due		Interest Due	
Littlefield Township	\$ 92,819	15 Years	5.50%	2007 2008 2009 2010 2011	\$	7,080 7,482 7,902 8,348 8,065	\$	1,962 1,561 1,140 694 223
					\$	38,877	\$	5,580



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Adam B. Caron, C.P.A.

Laura L. Schwalbach, C.P.A.

June 11, 2007

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

We have completed our audit of the financial statements of the Harbor Springs Area Sewage Disposal Authority for the year ended December 31, 2006, and have issued our report thereon dated June 11, 2007. In planning and performing our audit, of the financial statements, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. During our audit, we became aware of the following matters that represent an opportunity for strengthening operating controls and efficiencies.

The following comment was included in last year's letter and is being repeated:

Accounting Procedures and Reporting

The Authority's bookkeeper has the responsibilities of maintaining the checking account, including preparation of bank reconciliations, and mailing of checks. We would recommend that the Authority implement additional procedures to strengthen internal controls. The Authority's manager would review all unopened bank statements before the bookkeeper has access to the statements. He would also review the bank reconciliation on a surprise basis. The implementation of these procedures would help to protect the Authority against any unauthorized disbursements.

We would like to acknowledge the courtesy and assistance extended to us by the Authority's personnel during our audit. Should you have any questions with respect to the above comments, we would be pleased to discuss them with you at your convenience.

Very truly yours,

Smolinski & Christman, P.C.

Smolinski & Christman, P.C.